

LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6638

BILL NUMBER: SB 535

DATE PREPARED: Apr 7, 1999

BILL AMENDED: Apr 6, 1999

SUBJECT: Property tax add-back.

FISCAL ANALYST: Diane Powers

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State

STATE IMPACT	FY 1999	FY 2000	FY 2001
State Revenues		(69,200,000)	(73,200,000)
State Expenditures			
Net Increase (Decrease)		(69,200,000)	(73,200,000)

Summary of Legislation: (Amended) This bill allows individuals an adjusted gross income tax deduction for property taxes paid on a primary residence in Indiana. The deduction is limited to \$2500. This bill provides a reduction in the business property taxes that are required to be added back to income in determining Indiana Adjusted Gross Income Tax or the Financial Institutions Tax. (Current law requires that all of such property taxes be added back to income.) The bill limits the reduction to the lesser of 50% of these property taxes or \$2500.

Effective Date: January 1, 1999 (retroactive).

Explanation of State Expenditures: There will be some administrative costs to the Department of Revenue to revise tax forms, instructions and computer programs to accommodate this change. These expenses will come from their existing budget.

Explanation of State Revenues: (Revised) This bill is effective for tax years beginning January 1, 1999 and will affect revenue collection beginning in FY 2000. The total estimated loss of income tax revenue would be \$69.2 M in FY 2000 and \$73.2 M in FY 2001.

Business property taxes: Business property taxes are added back on corporate, financial institutions and

individual income tax returns. Based on of review of these three taxes and the amount of property taxes that are added back, the estimated revenue loss from not adding back the lesser of 50% of these taxes or \$2,500 will result in a revenue loss from these three taxes of \$15 M in FY 2000 and \$15.8 M in FY 2001.

Residential/homeowners' property taxes: This bill also allows individual taxpayers to deduct property taxes paid on their principle place of residence up to \$2,500. Based on information from the State Tax Board and the Internal Revenue Service, it is estimated that this deduction will reduce individual income tax revenue by \$54.2 M in FY 2000 and \$57.4 M in FY 2001.

The total estimated loss of income tax revenue would be \$69.2 M in FY 2000 and \$73.2 M in FY 2001.

Revenue from Corporate Gross Income Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax and the Financial Institution Tax is deposited in the General Fund and the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: The change in the calculation of Indiana taxable income will also reduce the amount of revenue collected for counties that impose a local option income taxes.

State Agencies Affected: Department of Revenue.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: Local Government Data Base; Department of Revenue- Individual Income Tax Statistics, Financial Institutions Income Tax Statistics; December 17, 1998 Revenue Forecast- State Budget Agency.